

Improving urban water services

Government engagement with Non-State Providers

Introduction

NSPs have a substantial market share in serving informal urban areas, as limited government services and resources are preferentially allocated to formal (high- and middle-income) areas. Governments alone cannot provide water services for all: working with capable NSPs is therefore important to making an impact on urban water provision. This is helped by a strong civil society and thriving private sector, with governments considering how best to enhance the operating environment for them.

Effective government engagement with water NSPs is emerging through activities such as: recognition and registration of NSPs, collaboration on scaling-up approaches, contracting NSPs, tripartite partnerships and market-friendly regulation.

This Briefing Note identifies how government can engage with Non-State Providers of urban water, to enhance the delivery of effective and sustainable water services to poorly served areas in developing countries.



Headline facts

- Water services in low-income and other poorly served urban areas of developing countries are principally supplied by Non-State Providers (NSPs).
 - Water utilities are often reluctant to operate in informal settlements, due to perceived constraints in land tenure, land access and the ability of the poor to pay.
 - The poor can and do pay high prices for water, typically paying 5-20 times more (per volume) for water provided by NSPs, as compared with local utility charges.
 - There is significant scope for productive engagement between government and NSPs in urban water provision.
 - Public agencies and NSPs often use the same water sources: engagement can lead to better management of those sources.
 - Urban NSPs who take water directly from utility pipelines are effectively customers of the public utility: there is clear scope for better collaboration to improve services for end users.
 - Distinct benefits can arise from government working effectively with NSPs to improve consumer services on a significant scale:
 - NSPs build the confidence to expand their operations,
 - Government concentrates resources towards governance and enabling roles, and
 - Public agencies focus on improving their existing services.



Types and Operations of the Main Urban Water NSPs

In many low-income areas in Sub-Saharan Africa and Asia, people without a piped water connection rely on water obtained from Non-State Providers (NSPs). In many African cities, NSPs collectively serve more customers than the public utility, while in cities in conflict or post conflict situations, NSPs may be the only water providers.

NSPs in urban water services can be divided into three broad types, varying in the services they provide, their character and ethos:

- **Informal private (for profit) providers** (also referred to as small scale independent providers (SSIPs) and small water enterprises (SWEs));
- **Civil society organizations** supporting community-based management such as CBOs and NGOs; and
- **Public Private Partnership (PPP) operators** (both local and international) for water services.

Informal private water providers

Informal private providers can be divided into two distinct types:

- **Independent Water Service Providers:** generally obtain water from alternative sources, such as private borewells, then distribute via a small pipe network, single supply point, or carriers. Many are unauthorized or unregulated.
- **Intermediate Water Service Providers:** generally obtain water from the utility's piped network and either install and manage network extensions or water points, or buy, carry and sell water directly to customers.

Box 1: Success factors of informal private water providers

Studies in Dar Es Salaam, Kampala, Mombasa and Nairobi (1998 - 1999) identified success factors of informal private water providers in water supply services. They can:

- respond to the dynamics of market demand, unlike monopolistic public enterprises;
- access peri-urban or informal settlement areas not covered by the public operator;
- be commercially oriented;
- respond to market needs in densely populated areas by providing different service options; and
- operate other parallel businesses.

Each informal private water provider offers a comparative advantage within its market niche (Table 1). For example, in informal settlements with no piped supply and limited access for water trucks, small cart- and cycle-vendors have the comparative advantage.

Public water utilities can support NSPs by extending piped networks and providing water points closer to customers thus reducing NSP transport costs and in turn customer charges.

Civil society organizations

Various Civil Society Organizations (CSOs) operate in developing countries, including:

- **International NGOs:** working with local NGOs and Community Based Organizations (CBOs). Often engage in policy dialogue, while some specialize in relief work;
- **Local NGOs:** including faith-based organizations and groups with a particular ethos. Usually work with CBOs and may engage in policy dialogue;
- **NGO umbrella organizations:** enabling networking, lesson learning and platforms for advocacy; and
- **Community Based Organizations (CBOs):** typically developing and managing services in conjunction with NGOs and government. Others operate on a self-help basis.

Sustainable management of participatory water projects requires long-term input from community groups, beyond decision-making, planning and payment stages. There are concerns, however, about the viability of such long-term inputs. Partnering in shared management arrangements enables CBOs to operate and maintain facilities, while achieving cost recovery (Box 2). This has proved to be successful in a number of locations.

Table 1. Comparative advantages of different informal water providers

| Type of informal provider | Comparative advantages | Examples of application |
|---|--|--|
| Private/community managed pipe networks (often in informal settlements) | Good solution where utilities are not willing/able to work. Unit costs per volume generally less than other options, except where water is sold at kiosks. | Community managed: Haiti, Kenya, Malawi Private: Benin, Philippines |
| Private boreholes (e.g. connected to standpipes or small pipe networks) | May be combined with option above. Suitable in areas where the utility cannot serve, given adequate water quality. | India, Kenya, Mauritania |
| On-selling piped water to neighbours (e.g. from yard taps, or piped from neighbour's house) | Suitable for people with no connection, provided potential disputes can be managed. | Kenya, Cote d'Ivoire, India, Uganda |
| Water kiosk or standpipe vendors (managed by private water sellers or community groups, selling water by the container) | Convenient for people with no connection. Costs associated with paying someone to sell the water. | Kenya, Senegal, Uganda, Tanzania |
| Water trucks or tankers (sell water to distributing vendors, or direct to consumers) | A suitable option where larger quantities of water are required. Much more expensive than piped water. | Haiti, Mauritania, Tanzania, Uganda |
| Animal-drawn carts (vendors sell water to consumers or water carriers, from donkey, camel or horse-pulled carts) | Suitable where water must be carried some distance. Much more expensive than piped water. | Senegal, Mali, Mauritania |
| Handcarts, hand or cycles (vendors sell water directly to consumers, at or near the home) | Expensive compared to other options, but suitable where access is a problem. | Handcarts: Indonesia, Vietnam, Burkina Faso Hand or cycles: most LICs including Mali, Kenya |

Box 2: Co-operative management of water distribution in Kibera, Nairobi

To address water supply problems in the Laini Saba area of Kibera informal settlement, a CBO (Ushirika) in partnership with a local NGO (Maji Ufanisi) and collaboration with the water utility, extended piped water services to the area. Maji Ufanisi provided materials and technical expertise, while the local community provided labour to lay pipelines and construct water kiosks.

Ushirika Co-operative Water Society is billed for bulk supply by the utility, while consumers pay for water by volume at the water kiosks. Kiosk staff are paid a proportion of the money they collect, with surplus funds reinvested in other Ushirika projects.

PPP operators: state purchase of basic water services

Use of long-term PPP contracts, such as lease and concession contracts for management of urban water services, occurred during the late 1990s and early 2000s. Many such contracts failed to ensure equitable services to the poor. Good examples were based on close cooperation of private operators and NGOs, to serve low income areas with a range of service and payment options.

High profile problems with large PPP contracts have left international operators wary of taking on substantial commercial risks from concession and lease contracts in low-income countries. Options for contracting-out services to the local formal private sector are being more widely considered.

A 20-year joint venture operating in Nigeria, the Karu–Maraba concession, provides a model for adaptation (Box 3).

Box 3: Karu–Maraba joint venture concession: Nasarawa state, Nigeria

The Karu-Maraba joint venture concession has helped develop a town's water services. The local private sector invested in and now manages water services. As part of the joint venture, it gave a 15% share to the government, for helping the operator gain access to land and overcome bureaucratic hurdles.

Despite concerns with bidding and regulatory processes, the joint venture approach can be adapted for replication.

Creating an Enabling Environment for NSPs

Governments need to consider how best to enhance the enabling environment for both civil society and the private sector. As donors and governments seek to encourage public water sector agencies to engage more productively with different types of NSPs, they need to be mindful of a range of perceived incentives and disincentives that government staff and NSPs may have about such engagement:

- Formal recognition and engagement offers NSPs security in operation and protection of their investment, but may also increase their costs, such as through taxes.
- Governments can claim some of the credit for facilitating improved NSP services, but staff may view informal providers as unqualified competition.

Other issues to be addressed, to enable better engagement, include:

- **Reconciling informality with conventional procedures.** Most informal operators are difficult to contract and monitor. Overcoming incompatible informal business practice and formal procedures is essential for effective collaboration.
- **Changing attitudes.** Officials rarely understand local private operators' working methods and logic, or the rules of the informal market. This can create mistrust between technocrats and local entrepreneurs.

Government must plan engagement with NSPs carefully, to avoid misguided interventions and negative impact on services. Some water utilities have tried regulating the prices charged by water vendors, or challenging their rights to operate. This affects the viability of those NSPs and may encourage them to seek support from local politicians.

Government engagement with NSPs can be divided into categories of increasing levels of commitment and capacity requirements (Table 2). Each category includes various types of engagement, offering a 'menu' of potential government interventions with NSPs. Successful government/NSP relationships often entail a mix of levels and forms of engagement.

Table 2. Types and levels of government engagement with water NSPs

| Category | Increasing level of required commitment and capacity → | | | | |
|------------------------------------|---|---|--|---|--|
| | Recognition | Dialogue | Facilitation/ collaboration | Contracting | Regulation |
| High levels of engagement | | | Compacts (Longer term agreements between governments and civil society) | Long-term contracts for service provision (10 yrs+) Medium-term contracts for service provision (3-10 yrs) | Independent economic regulation (larger utility operators) Regulation of minimum service quality levels |
| Medium levels of engagement | Registration of NSPs Formal legal recognition of NSPs and their rights to provide services | National policy dialogue Local policy dialogue | Collaborative arrangements including: co-production, MoUs and scaling up approaches Umbrella NGO networks Facilitation of NSPs | Short-term contracts with private sector and/or civil society institutions (up to 3 years) Client/customer relationships | Regulation of market entry Publicizing NSP costs Consumer forums and watch groups Flexibility in standards and supportive supervision |
| Lower levels of engagement | Limited formal recognition of NSPs Non-interference in 'acceptable' activities | Exploring options for local collaboration | | | |

Improving Engagement with NSPs

Recognition and registration: Formal recognition of NSPs supports more productive forms of engagement. Two forms of recognition are key: government openly recognizing that they cannot supply adequate services alone, and that recognition of NSPs' rights to provide certain services is a precursor to other engagement.

Dialogue: Dialogue on collaborative approaches to implementation is often initiated by NGOs, as public sector agencies are reluctant to engage in direct dialogue with NSPs. Effective dialogue requires comprehensive engagement to follow, increasing the influence, or 'voice', of NSPs in decision-making, either directly or through the use of associations. Poor dialogue can lead to wasted investments.

- In Dhaka, Bangladesh, DSK a local NGO with donor support, provided over 100 community water points in informal settlements. Unfortunately most were demolished during subsequent slum clearance programmes.

Facilitation and collaboration: Collaboration between utilities/governments and CBOs has resulted in community managed water distribution systems in informal settlements in Blantyre and Lilongwe (Malawi), Nairobi (Kenya), and Port-Au-Prince (Haiti). In most cases, NGOs have acted as intermediaries in the process.

Regulation: Economic regulation of smaller informal NSPs such as water vendors, is unlikely to be as effective or practical as more market-friendly and supportive forms of regulation (such as those in Table 2).

Options for scaling up support to NSPs

Potential measures for enhancing the willingness and capacity of government to engage effectively with water NSPs, include:

- *Promoting/supporting appropriate types of engagement*, as identified in Table 2;
- *Disseminating evidence of the typical experiences and benefits* of engagement between government/utilities and NSPs;
- *Providing appropriate government incentives for better engagement*, such as official recognition of NSPs and market-friendly regulation;
- *Intermediaries*, to increase NSP influence and activity in informing policy, working in areas that are 'off-limits' to government, and scaling up effective approaches;
- *Pro-poor targeting mechanisms*, such as involving NSPs in Output Based Aid¹;
- *Facilitating the growth of small companies* by mobilizing formal finance, where access to finance is a key constraint;
- *Improved monitoring and evaluation* that captures NSP services, that can inform future investments and policy development; and
- *Adopting national or programmatic approaches* to scale up support to NSPs. This will require confidence in the effectiveness of approaches that have been successfully piloted.

Selection of support options needs to be done following a careful assessment of the local situation.

¹ Output-Based Aid (OBA) uses explicit performance-based subsidies to support the delivery of basic services. Service delivery is contracted-out to a third party (such as a private firm, CBO or NGO), with payment of public funds tied to delivery of performance-based outcomes. See The Global Partnership on Output-Based Aid <http://www.gpoba.org/index.asp>

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Briefing Note compiled by Kevin Sansom and Rebecca Scott of WEDC

Photographs by Cyrus Njiru and Rod Shaw

DFID Resource Centre in Water, Sanitation & Environmental Health
www.Lboro.ac.uk/well

For further information, contact:

WELL

Water, Engineering and Development Centre (WEDC)

Loughborough University

Leicestershire LE11 3TU UK

Email: WELL@Lboro.ac.uk

Phone: 0 (44) 1509 228304

Fax: 0 (44) 1509 211079

Website: <http://www.Lboro.ac.uk/well/>



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